TAX REFORM LAWS AND YEAR-END CLIENT MOVES

Congress appears poised to enact a major tax reform law that could potentially make fundamental changes in the way you and your family calculate your federal income tax bill, and the amount of federal tax you will pay. This letter is designed to help you cope with those changes in order to take advantage of tax breaks that may be heading your way, and to soften the impact of any crackdowns. However, keep a close eye on the news and don't swing into action until the ink is dry on the President's signature of the tax reform bill.

1. **Lower tax rates coming:** The tax bill passed the House of Representatives and the one before the Senate would reduce tax rates for many taxpayers, effective for the 2018 tax year. Additionally, businesses may see their tax bills cut, although the final form of the relief isn't clear right now.

2. **The general plan of action:** Defer income into next year. Some possibilities follow:

a. If you are an employee who believes a bonus is coming your way before year end, consider asking your employer to delay payment of the bonus until next year.

b. If you are thinking of converting a regular IRA to a Roth IRA, postpone your move until next year. That way you'll defer income from the conversion until next year and hopefully have it taxed at lower rates.

c. If you run a business that renders services and operates on the cash basis, the income you earn isn't taxed until your clients or patients pay. So if you hold off on billings until next year—or until so late in the year that no payment can be received this year—you will succeed in deferring income until next year.

d. The reduction or cancellation of debt generally results in taxable income to the debtor. So if you are planning to make a deal with creditors involving debt reduction, consider postponing action until January to defer any debt cancellation income into 2018.

3. Disappearing deductions, larger standard deduction: Beginning next year, both the House-passed tax reform bill and the version before the Senate would repeal or reduce many popular tax deductions in exchange for a larger standard deduction. Here's what you can do about this right now:

a. Because most other itemized deductions would be eliminated in exchange for a larger standard deduction (e.g., in both bills, $24,000 for joint filers), charitable contributions after 2017 may not yield a tax benefit for many. If you think you will fall in this category, consider accelerating some charitable giving into 2017.

b. If you're in the process of selling your principal residence and you wrap up the sale before year end, up to $250,000 of your profit ($500,000 for certain joint filers) will be tax-free if you owned and used the property as your main home for at least two of the five years before the sale. However, under the House-passed bill and the bill before the Senate, the $250,000/$500,000 tax free amounts would apply to post-2017 sales only if you own and use the property as your main home for five out of the previous eight years.

c. Both the House-passed bill and the version before the Senate would repeal the deduction for moving expenses after 2017 (except for certain members of the Armed Forces), so if you're about to embark on a job-related move, try to incur your deductible moving expenses before year-end.

If you would like more details about any aspect of how the proposed legislation may affect you, please do not hesitate to call.